

Message Text

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ACTION EUR-12

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FM AMEMBASSY ROME

TO SECSTATE WASHDC IMMEDIATE 0942

S E C R E T SECTION 1 OF 2 ROME 6538

E.O. 11652: GDS

TAGS: OVIP (PRESIDENT FORD) IT

SUBJECT: PRESIDENTIAL VISIT TO ROME, II: ITALIAN POLITICO/
ECONOMIC SCENE

REF: A. STATE 103235

B. ROME 6530

POLITICAL:

1. PRESIDENT FORD WILL BE ARRIVING IN ROME ONLY 12 DAYS BEFORE IMPORTANT NATIONWIDE REGIONAL ELECTIONS (INVOLVING SOME 40 MILLION VOTERS) WHICH ARE ALREADY THE FOCUS OF GOVERNMENT AND PARTY LEADERS' ATTENTION. PRE-ELECTION MANEUVERING IS STRAINING THE PRESENT GOVERNING COALITION (THE CHRISTIAN DEMOCRATS AND THE REPUBLICANS IN OFFICE, SUPPORTED IN PARLIAMENT BY THE SOCIALISTS AND THE SOCIAL DEMOCRATS). THE GOVERNMENT UNDER PRIME MINISTER MORO IS EXPECTED TO SURVIVE THROUGH THE ELECTIONS BUT NOT LONG THEREAFTER. IF THE ELECTIONS INDICATE NO SIGNIFICANT LEFTWARD SHIFTS IN VOTER AFFILIATIONS, THE POST-ELECTION PROSPECT WOULD BE RECONSTITUTION OF A FOUR-PARTY (SOPRA) CENTER-LEFT GOVERNING COALITION, THE ONLY VIABLE, DEMOCRATIC MAJORITY IN SIGHT. HOWEVER, SHOULD THE SOCIALISTS MAKE SIGNIFICANT GAINS, THEIR PRICE (A GREATER SHARE OF THE POWER AND PATRONAGE NOW CONTROLLED BY THE CHRISTIAN DEMOCRATS) MIGHT BE MORE THAN THE CHRISTIAN DEMOCRATS WOULD BE WILLING TO PAY. A PROLONGED GOVERNMENT CRISIS WOULD THEN BE IN SIGHT, WITH FULL NATIONAL ELECTIONS A DISTINCT POSSIBILITY.

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2. IT NOW APPEARS THAT THE CHRISTIAN DEMOCRATS MAY HOLD THEIR ANTICIPATED LOSSES IN THE JUNE 15 ELECTIONS TO TWO OR THREE PERCENT, THE SHIFTING VOTE GOING TO OTHER PARTIES OF THE CENTER-LEFT. A TWO PERCENT FIGURE, GIVEN THE CALCULUS OF ITALIAN POLITICS, WOULD REPRESENT A LIMITED VICTORY IN RELATIVE TERMS FOR THE CHRISTIAN DEMOCRATS. THEY HAVE TRADITIONALLY FARED WORSE IN REGIONAL (AS OPPOSED TO FULL NATIONAL) ELECTIONS, AND ONLY A FEW MONTHS AGO WERE ANTICIPATING POSSIBLE LOSSES UP TO FIVE PERCENT. HOWEVER CIRCUMSTANCES AND DEFT POLITICAL MANAGEMENT IN RECENT WEEKS HAVE IMPROVED THE CHRISTIAN DEMOCRATIC PROSPECTS.

3. UNDER PARTY SECRETARY FANFANI, THE CHRISTIAN DEMOCRATS HAVE TURNED PUBLIC CONCERN OVER MOUNTING POLITICAL VIOLENCE AND COMMON CRIMINALITY (THE "LAW AND ORDER" ISSUE) TO THEIR ADVANTAGE BY PRESSING FOR URGENT REMEDIAL LEGISLATION, DISCOMFITING THE OPPOSED SOCIALISTS. THEY HAVE ALSO SKILLFULLY USED PORTUGUESE DEVELOPMENTS, PARTICULARLY THE BAN ON THE PORTUGUESE CHRISTIAN DEMOCRATS IN THE APRIL "ELECTIONS," INTRODUCING ANTI-COMMUNISM INTO A REGIONAL VOTE AND HIGHLIGHTING THE DILEMMA POSED FOR THE "DEMOCRATIC" ITALIAN COMMUNIST PARTY. THESE ISSUES, TOGETHER WITH A PERCEPTIBLE UPTURN IN THE BALANCE OF PAYMENTS, WILL TEND TO OFFSET ANTICIPATED CHRISTIAN DEMOCRATIC LOSSES IN VOTER SUPPORT STEMMING FROM LONG-STANDING ISSUES OF INEFFICIENCY OF THE STATE BUREAUCRACY, FROM GOVERNMENT FAILURE TO COMPLETE MANY BADLY NEEDED REFORMS IN REGARD TO DELIVERY OF SOCIAL JUSTICE, AND DISCONTENT WITH CHRISTIAN DEMOCRATIC LEADERSHIP.

4. THE COMMUNIST PARTY (PCI) SINCE THE WAR HAS FOLLOWED A NON-REVOLUTIONARY POLICY AIMED AT GAINING AN INCREASED ROLE IN POLICY MAKING AND EVENTUAL ENTRY INTO THE GOVERNING MAJORITY. SINCE THE OUSTER OF ALLENDE IN CHILE, THE PCI HAS VIGOROUSLY ARTICULATED THIS POLICY UNDER THE SLOGAN OF A "HISTORIC COMPROMISE" BRINGING TOGETHER COMMUNIST, SOCIALIST AND CATHOLIC (I.E., DC) FORCES. ECONOMIC DIFFICULTIES DEEPENED BY MASSIVE OIL PRICE INCREASES, SOCIAL AND LABOR UNREST AND INCREASING FRICTION BETWEEN SOCIALISTS AND CHRISTIAN DEMOCRATS LENT CREDIBILITY TO THE PCI OFFER. RECENTLY, HOWEVER, PORTUGUESE EVENTS, A SHARP ANTI-COMMUNIST DC ELECTORAL STANCE,

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SOCIALIST FEAR OF A DC-PCI ACCORD, AND SOME DIVISION ON THE ISSUE AMONG COMMUNIST RANK AND FILE HAVE SPIKED THE WHEELS OF THE INCIPIENT "HISTORIC COMPROMISE" BANDWAGON. WHILE HEAVY DC LOSSES IN THE JUNE ELECTIONS WOULD GIVE IMPETUS TO DC-PCI ACCORDS AT THE LOCAL LEVEL, PCI ENTRY INTO THE GOVERNING MAJORITY IS NOT PRESENTLY IN THE CARDS. FOR THIS REASON, DESPITE THE PERPETUAL SURFACE TURBULENCE OF ITALIAN POLITICS, NO CHANGE IN THE NEAR TERM IS LIKELY WHICH WOULD SERIOUSLY AFFECT OR

ALTER ITALY'S TRADITIONAL FOREIGN POLICY OF SOLIDARITY WITH
WESTERN EUROPE AND THE UNITED STATES.

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ECONOMIC:

5. THE DRAMATIC TURN-AROUND IN THE ITALIAN SHORT-TERM ECONOMIC SITUATION CONTINUES. THE BALANCE OF PAYMENTS, FOR EXAMPLE, WAS IN VIRTUAL EQUILIBRIUM FOR THE FIRST QUARTER OF THE YEAR. THE RATE OF INFLATION IS DECLINING. AS THE SITUATION IMPROVES, INTERNATIONAL CONFIDENCE IN THE ITALIAN ECONOMY IS RETURNING RAPIDLY. THE ITALIAN AUTHORITIES HAVE PREPAID A SUBSTANTIAL AMOUNT OF FOREIGN DEBT, THEIR TRADE FIGURES HAVE IMPROVED DRAMATICALLY, AND THE FOREIGN CAPITAL ACCOUNTS HAVE SWUNG IN ITALY'S FAVOR. THERE IS ALREADY TALK, WHICH WE CONSIDER PREMATURE AND PERHAPS EUPHORIC, OF A NEW ITALIAN MIRACLE.

6. THE DOMESTIC ECONOMY IS ON A PLATEAU WHICH APPEARS STABLE AT TOLERABLE LEVELS OF EMPLOYMENT. NONE THE LESS IT STILL APPEARS THAT ITALY WILL HAVE A SMALL NEGATIVE GROWTH RATE FOR 1975. MOST FORECASTERS AGREE THAT THERE SHOULD BE A SLIGHT UP-TURN TOWARD THE END OF THE YEAR, BUT RESUMPTION OF TRADITIONAL GROWTH RATES PROBABLY AWAITS AN IMPROVEMENT IN ECONOMIC CONDITIONS IN ITALY'S MAJOR TRADING PARTNERS, IN PARTICULAR, FRANCE AND GERMANY.

7. THE MEDIUM-TERM PROSPECTS FOR ITALY ARE UNCLEAR. ON ONE HAND THE ITALIAN ECONOMY HAS A RELATIVELY MODERN PLANT, MANY INDUSTRIES WHICH ARE HIGHLY COMPETITIVE INTERNATIONALLY, A VAST NUMBER OF HIGHLY ADAPTABLE SMALL AND MEDIUM SIZED INDUS-

TRIES WHICH ADAPT QUICKLY TO CHANGING CIRCUMSTANCES AND AMPLE
SCOPE FOR PRODUCTIVITY INCREASES. ON THE OTHER HAND, ITALY
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HAS LARGE FOREIGN DEBT THAT WILL HAVE TO GET BIGGER TO FINANCE
THE OIL DEFICIT. INTEREST RATES WILL HAVE TO REMAIN ABOVE
EUROPEAN LEVELS TO AVOID CAPITAL OUTFLOWS. LABOR CONTINUES
TO BE SUCCESSFUL IN ENLARGING ITS SHARE OF THE ECONOMIC PIE.
IT IS POSSIBLE, BUT BY NO MEANS PROVED, THAT ITALY MAY BE EN-
TERING A PROTRACTED PERIOD OF LOWER GROWTH RATES. IN SUM, THE
BRILLIANT SUCCESS OF THE ITALIAN AUTHORITIES IN REMEDYING THE
CRITICAL SITUATION OF 1974 SHOULD NOT BE ALLOWED TO OBSCURE
THE MANY DIFFICULTIES THE ITALIANS FACE IN ACHIEVING SATIS-
FACTORY LEVELS OF ECONOMIC GROWTH AND EMPLOYMENT OVER THE
LONGER RUN. VOLPE

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